



# COROLAB

*Your guide to investment ideas*



# THE CORONATION CLIENT CHARTER

---

We strive to always put clients first

We have an unwavering  
commitment to the long term

We focus on producing  
top performance over all  
meaningful periods

We are uncompromising  
about ethics

# INVESTING *offshore*

---

For long-term investors, we consistently highlight the benefits of having appropriate levels of international exposure through the cycle. While it may be tempting to increase or decrease international holdings for temporary reasons (such as current sentiment, specific currency expectations or recent returns), having exposure to foreign asset classes is not about timing. Instead, it is an allocation that should be made with strategic reasons in mind.

In this issue, we discuss these strategic reasons for investing offshore, share our international investment philosophy and approach, and look at the various options to gain offshore exposure with Coronation.

# STRATEGIC REASONS *to invest offshore*

---

## *1. Diversification*

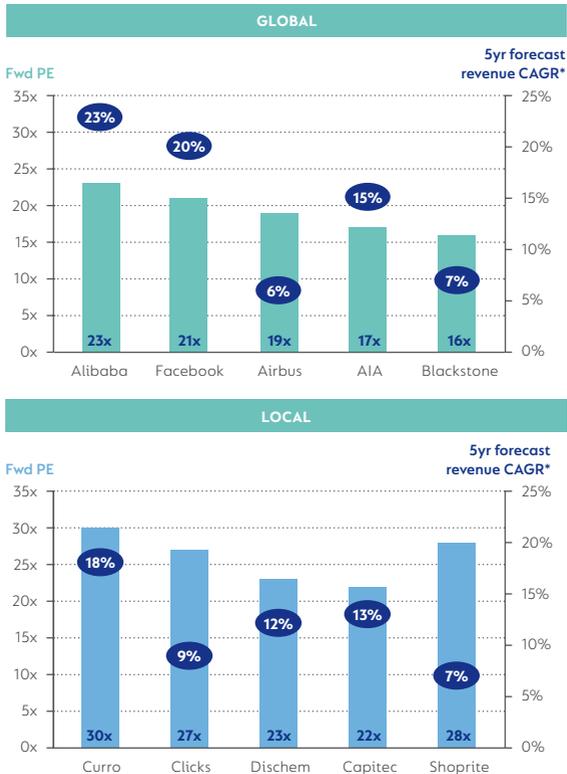
South African investors who restrict their universe to domestic assets not only miss out on opportunities in industries that are not present in South Africa (e.g. information technology, biotechnology, electronics, pharmaceuticals), but also on a much wider opportunity set within those industries.



Figure 1

By opening up their investment universe, investors gain access to a more diverse opportunity set as well as to better businesses with high expected earnings growth rates, at lower multiples (as demonstrated by the 5-year forecast for revenue growth and forward price-earnings multiples in Figure 1 below).

### GLOBAL COMPOUNDERS VS LOCAL COMPOUNDERS



\*Compound annual growth rate

Source: Coronation

Furthermore, by diversifying their investment portfolios to include international assets, they gain access to growth regions that benefit from mega-drivers such as industrialisation, urbanisation, digital advances and growing consumerism.

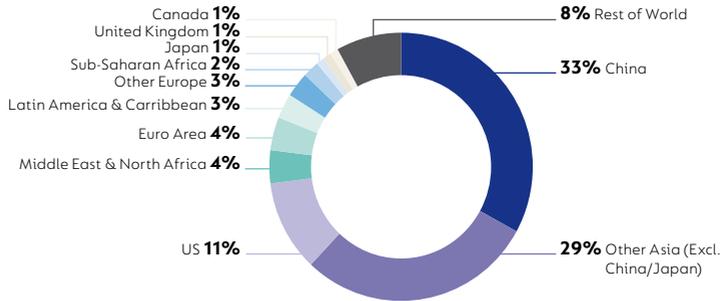
From Figure 2, it is clear that the drivers of global growth are predominantly outside of our own borders. By adding global diversification, investors are able to enhance their outcomes.



**Figure 2**

*Asian economies lead the way, accounting for 63% of the growth mix.*

### THE ECONOMIES ADDING THE MOST TO GLOBAL GROWTH IN 2019



Source: Visual Capitalist, based on data from Standard Chartered and the IMF  
<https://www.visualcapitalist.com/economies-global-growth-2019/>

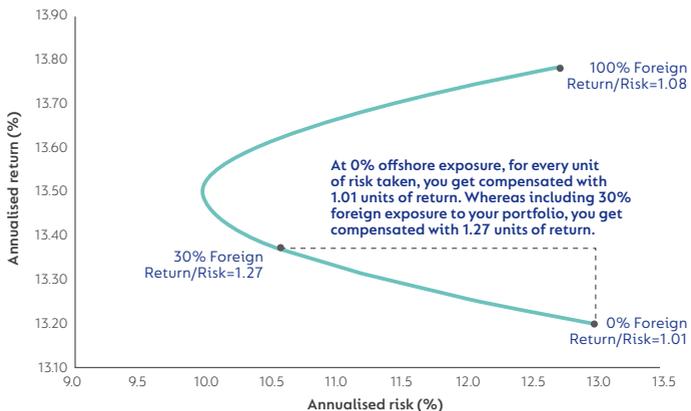
## 2. Optimisation

Allocating money internationally enables investors to reduce their level of risk required to achieve a specific rate of expected return. Studies on optimal portfolios recommend that long-term investors, who require a return of inflation plus 4% to 5% in rand terms, have a minimum international allocation of 20% to 30% through the cycle. This is the classic recommendation for retirement savers who are aiming to optimise the outcomes of their pension savings with which they would need to buy a basket of local goods and services. Investors with more diverse spending requirements (including a larger portion of foreign currency denominated spending), or bequest motives (where multiple generations may live on different continents) can justify a larger international allocation (i.e. more than 30%).



**Figure 3**

### RISK-RETURN FRONTIER SINCE 1950



Source: Coronation research

### 3. Matching your liabilities

Many items in a consumer's shopping basket (from fuel to food to healthcare) are largely priced in foreign currencies as the inputs are either commodities (with prices struck in global markets), or heavily reliant on imported content. Having adequate international exposure is a hedge against the long-term change in price of this part of your future shopping basket. Episodes of currency weakness will more than likely remain a strong driver of price increases into the future.

The performance of the rand significantly impacts how investors perceive international investments. Historically, interest in global assets is low when the rand is strong but increases as the rand weakens. This may be a problem if investors inadvertently replace cheap assets with expensive assets purely based on sentiment. It is important that investors always invest with a strategic asset allocation in mind.



*Don't let the performance of the rand guide you*



**CAUTION:** This sentiment-driven approach means investors are inadvertently replacing cheap assets with expensive assets.



## HOW TO DECIDE *on a strategic level*

While it may be best to draw up a comprehensive financial plan with a qualified financial adviser, we can offer the following general guidance: All long-term investors can benefit from portfolio optimisation benefits, with 20% being the minimum suggested strategic international allocation.

- ▶ Pensioners and other investors who need to fund a long-term rand income from their investment portfolios should guard against having too much international exposure, as rand movements can be volatile. Income-funding portfolios should typically not have more than 35% in international equities.
- ▶ Wealthy investors, without immediate income requirements, have more latitude: up to 100% of their investment portfolios can be invested in international assets, depending on their objectives and tolerance for risk.



*Indicative guide only. Please consult a financial adviser for a comprehensive plan.*

Source: Coronation Research



# OUR INVESTMENT PHILOSOPHY

## *and approach*

---

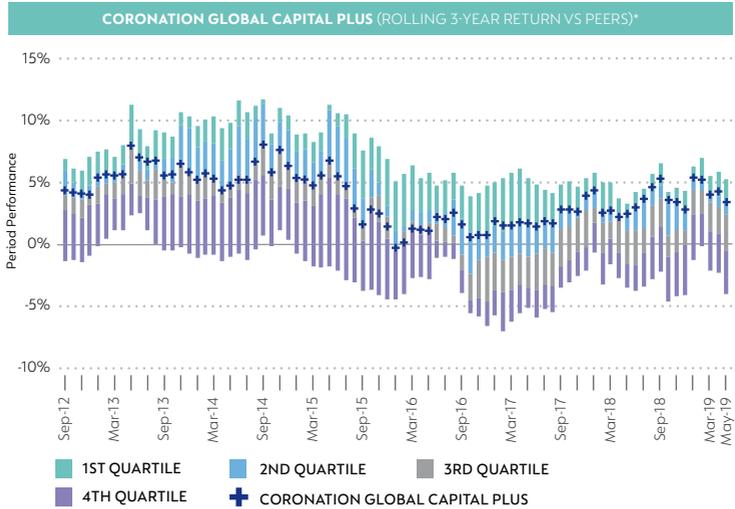
Coronation has a proven track record of alpha generation in global markets. All our international funds are managed according to the same long-term, valuation-driven investment philosophy that we have applied for more than a quarter of a century. While most managers face enormous pressure to perform well over 12-month periods – typically resulting in poor long-term decisions – our ability to focus on a time horizon of five years and longer allows us to invest in assets that we believe are trading at substantial discounts to our assessment of their underlying long-term value.

Based in Cape Town, our integrated global investment team is one of the only investment teams in the world with three former chief investment officers (CIOs) still actively managing money. Led by CIO Karl Leinberger, the team comprises 67 professionals, with an average of 14 years in the industry and just over 10 years with Coronation. Our developed markets equity team of 8 analysts is headed by former Coronation CIO Louis Stassen, and is closely integrated with our global emerging markets team of 10, led since inception by Portfolio Manager Gavin Joubert.

Our proven multi-asset capabilities have resulted in strong outcomes for investors over the past quarter of a century. This expertise is evident in the track record of our global multi-asset funds among international peers as shown in Figure 4 and 5 on page 7. Their efforts are supported by our global multi-manager team, led by another former Coronation CIO Tony Gibson. This team continues to be responsible for the core global equity building block used in our domestic multi-asset funds such as Coronation Balanced Plus. Further depth is provided by the four analysts in our Global Frontier Markets team.



Figure 4



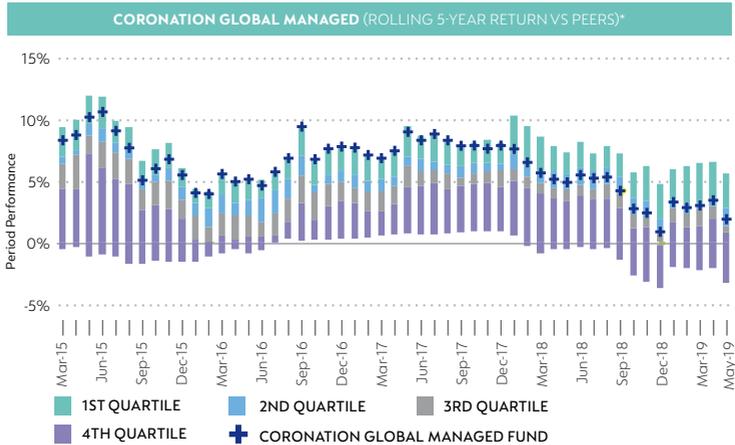
\*Peer group consists of comparable global funds available on the major South African-based offshore platforms. Returns are class P (clean or platform fund class), quoted for the USD-denominated fund for the period September 2009 (launch date of fund) to May 2019.

Source: Morningstar

For full performance information refer to pages 14 – 15.



Figure 5



\*Peer group consists of comparable global funds available on the major South African-based offshore platforms.

Returns are class P (clean or platform fund class), quoted for the USD-denominated fund for the period March 2010 (launch date of fund) to May 2019.

Source: Morningstar

For full performance information refer to pages 14 – 15.

We believe in a team-based approach to investing rather than relying on specialist silos where investment decisions are made in a vacuum. Our entire investment team – covering the South African and global markets – sit together in one open-plan office. They are constantly interacting and exchanging investment information. Our analysts and fund managers each cover a wide range of investments, across different industries and countries. They can price profit and risk across asset classes, sectors and geographies. We believe this broader perspective builds better investors, drives better debate and results in better investment decisions. Our team-based and generalist approach has contributed to the stability of our investment process.



*A single  
global  
investment  
team*



With analysts covering a wide range of companies in different sectors, there are no gaps in research coverage in the event of occasional departures from the team. We believe this commitment to sustainability will contribute to the delivery of continuing superior investment results in the decades to come.



# INVESTING OFFSHORE

## *with Coronation*

---

Investors have different ways through which to gain international exposure with Coronation. Most of our flagship domestic multi-asset funds already have a considerable international allocation. We also offer a range of funds (rand-denominated or foreign-domiciled) that are invested in global markets. Below we discuss these options in more detail.

### INVEST IN A REGULATION 28-COMPLIANT MULTI-ASSET FUND



#### SUITABLE FOR INVESTORS WHO:

- **are only investing for retirement;**
- **have both income and growth needs; and/or**
- **a short investment horizon.**

Pension funds are currently allowed a maximum offshore allocation of 30% (with an additional 10% in other African markets). This level of exposure to offshore assets may be sufficient for investors who:

- only have the budget to save for their retirement and do not plan to make any other discretionary investments; or
- have both income and growth needs and/or a short investment horizon.

Our domestic multi-asset funds (Balanced Plus, Capital Plus and Balanced Defensive) are mandated to hold the maximum allowable offshore allocation on behalf of investors ([refer to Figure 6](#)).

# INVEST IN A WORLDWIDE FLEXIBLE MULTI-ASSET FUND



## SUITABLE FOR INVESTORS WHO:

- are discretionary investors with larger offshore exposure needs; but
- still require a fund manager to allocate between domestic and international assets.

We offer two multi-asset funds optimised for long-term discretionary investors who are not subject to retirement fund investment restrictions. Market Plus can invest up to 40% offshore, while investors requiring an unconstrained mandate can consider Optimum Growth. The fund will typically invest between 50% and 90% of its portfolio in international assets.

Optimum Growth truly celebrates active investing. The fund can invest in any listed asset from anywhere in the world, benefiting from the breadth and depth of our global investment team covering equities, bonds and property across the domestic, international developed, emerging and frontier markets. While it is an equity-centric solution, allocation to other asset classes will be informed by valuations. The fund does not target strategic asset allocation.

## UNPACKING OPTIMUM GROWTH



\*Morningstar as at 31 May 2019.

Launch date: March 1999; Highest annual return: 51.1% (Jan 2013 – Dec 2013);  
Lowest annual return: -31.5% (Mar 2008 – Feb 2009)

Benchmark: Composite 35% local equities, 35% international equities, 15% local bonds and 15% international bonds

## INVEST IN A FUND THAT ONLY HOLDS INTERNATIONAL ASSETS



### SUITABLE FOR INVESTORS WHO:

- do not have access to the optimal level of offshore exposure by means of their pension funds;
- have investment horizons spanning multiple decades; and/or
- with large discretionary investments.

These investors may consider further increasing their offshore exposure, and diversifying their portfolios with access to other regions and currencies of the world, by investing in a rand-denominated or foreign-domiciled international fund:

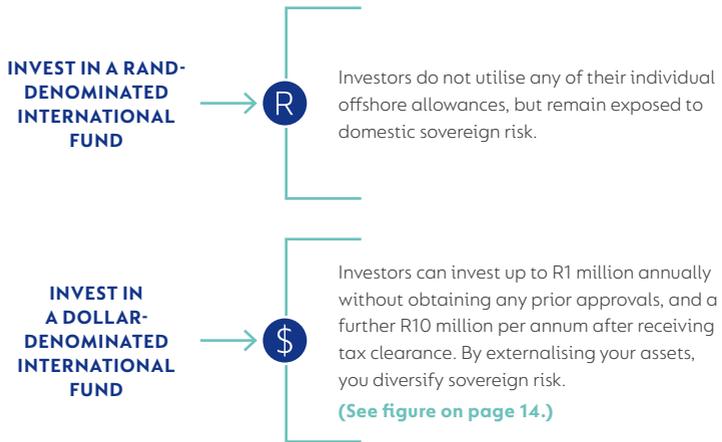


Figure 6

NEUTRAL VS CURRENT OFFSHORE EXPOSURE

FUND NAME	NEUTRAL OFFSHORE POSITIONING OF FUND	CURRENT OFFSHORE POSITIONING OF FUND (AS AT END MAY 2019)
Coronation Balanced Plus	20%	25%
Coronation Market Plus	20%	33%
Coronation Optimum Growth	50%	93%
Coronation International Funds	100%	100%



# FREQUENTLY ASKED

## *questions*

---

### *How to access our international funds*

---

Our rand-denominated international funds are available directly from Coronation, or as investment options on the product platforms of most of the prominent linked product companies in South Africa. Our foreign-domiciled funds can also be accessed directly, or through the offshore fund platforms offered by Alexander Forbes, Allan Gray, Cidel, Discovery, Absa Investment Management Services, Glacier by Sanlam, Investec, Momentum, INN8 and Old Mutual International.

### *How to choose between a rand- denominated & foreign currency- denominated fund*

---

Our rand-denominated and foreign-domiciled international funds are invested in the same assets. The suitability of fund structure is best determined by an investor's financial and tax planning considerations. Factors such as the investor's status (natural person or trust); family needs (e.g. children on different continents) and the purpose of their investment (e.g. whether they want to draw an income) should influence this decision. Offshore investment is still subject to exchange controls set by government and administered by the South African Reserve Bank. When investors elect to invest in our foreign-domiciled international funds, they use their individual allowance of up to R11 million per annum. Investors in our rand-denominated international funds utilise Coronation's foreign investment allowance, which is currently set at 40% (excl. Africa) of the household assets invested in our unit trust funds.

## *Deciding on the right currency choice*

---

Deciding on the optimal currency allocation within a portfolio is integral to establishing the fair value of assets and optimising returns over time. Our long-term, growth-oriented foreign-domiciled funds therefore invest in a basket of currencies, despite the fact that returns are reported in US dollars. However, where funds have short-term capital preservation targets, which can only be expressed in a certain currency, the currency decision is often more appropriately made by the client. For this reason, we have introduced hedged currency classes for the Coronation Global Capital Plus Fund. This enables investors to choose the reference currency which we will use in managing the risk of short-term capital loss.

**(See figure on page 14 for details.)**



# OUR INTERNATIONAL flagship fund range

	DEPOSIT ALTERNATIVE	CAPITAL PRESERVATION
FUND <sup>1</sup>	GLOBAL STRATEGIC USD INCOME US dollar cash (3 Month Libor)†	GLOBAL CAPITAL PLUS US dollar cash (3 Month Libor)†
FUND DESCRIPTION	<p>› An intelligent alternative to dollar-denominated bank deposits over periods of 12 months or longer.</p>	<p>› A low-risk global balanced fund reflecting our best long-term global investment view moderated for investors with smaller risk appetite. We offer both hedged and houseview currency classes of this fund. In the case of the former, the fund aims to preserve capital in the class currency over any 12-month period.</p>
INCOME VS GROWTH ASSETS <sup>2</sup>	Income: 98% Growth: 2%	Income: 64% Growth: 36%
LAUNCH DATE OF OLDEST FUND	Dec-11	Nov-08
ANNUAL RETURN <sup>3</sup> (Since launch)	2.5% 0.9%†	4.9% 0.4%†
QUARTILE RANK <sup>4</sup> (Since launch)	-	1
ANNUAL RETURN <sup>3</sup> (Last 5 years)	1.3% 1.2%†	1.2% -0.8%†
ANNUAL RETURN <sup>3</sup> (Last 10 years)	-	3.9% -0.2%†
QUARTILE RANK <sup>4</sup> (Last 5 years)	-	1
FUND HIGHLIGHTS	Outperformed US dollar cash by 1.5% p.a (after fees) since launch in December 2011.	The fund has outperformed US dollar cash by 4.4% p.a. (after fees) since launch in 2008.

1 Funds are available as rand-denominated feeder funds and foreign currency-denominated funds. The Global Capital Plus fund is also available in US dollar Hedged (launched 1 December 2011), GBP Hedged (launched 1 December 2011), EUR Hedged (launched 1 December 2011) or Houseview currency class (launched 1 September 2009).

2 Income versus growth assets as at 31 May 2019 (for US dollar funds). Growth assets defined as equities, listed property and commodities (excluding gold).

3 Returns quoted in US dollar for the oldest fund, class A.

INVESTOR NEED		
LONG-TERM CAPITAL GROWTH (MULTI-ASSET)	LONG-TERM CAPITAL GROWTH (EQUITY ONLY)	
GLOBAL MANAGED Composite (equities and bonds)†	GLOBAL OPPORTUNITIES EQUITY MSCI ACWI†	GLOBAL EMERGING MARKETS MSCI Emerging Markets Index†
<p>› A global balanced fund reflecting our best long-term global investment view for investors seeking to evaluate outcomes in hard currency terms. Will invest in different asset classes and geographies, with a bias towards growth assets in general and equities in particular.</p>	<p>› A diversified portfolio of the best global equity managers (typically 6-10) who share our investment philosophy. An ideal fund for investors who prefer to own just one global equity fund. Investors who want to blend their international equity exposure may consider Coronation Global Equity Select, which has more concentrated exposure to our best global investment views.</p>	<p>› Our top stock picks from companies providing exposure to emerging markets. The US dollar fund remains fully invested in equities at all times, while the rand fund will reduce equity exposure when we struggle to find value.</p>
<b>Income: 34%</b> <b>Growth: 66%</b>	<b>Growth: 100%</b>	<b>Income: 1%</b> <b>Growth: 99%</b>
<b>Oct-09</b>	<b>Aug-97</b>	<b>Dec-07</b>
<b>5.8%</b> <b>6.3%†</b>	<b>6.4%</b> <b>5.7%†</b>	<b>2.3%</b> <b>0.7%†</b>
<b>1</b>	<b>-</b>	<b>1</b>
<b>1.5%</b> <b>3.8%†</b>	<b>3.9%</b> <b>5.7%†</b>	<b>-1.1%</b> <b>1.9%†</b>
<b>-</b>	<b>8.0%</b> <b>10.3%†</b>	<b>5.4%</b> <b>5.3%†</b>
<b>2</b>	<b>-</b>	<b>4</b>
Number one global multi-asset high equity fund in South Africa since launch in October 2009.	The rand version of this fund has outperformed the global equity market with less risk since its launch date.	Both the rand and dollar versions of the fund have outperformed the MSCI Emerging Markets Index by more than 1.6% p.a. since their respective launch dates.

4 Quartile ranks are based on A-class returns.

**Highest annual return**

Global Strategic USD Income: 7.1% (Jan 2012 - Dec 2012); Global Capital Plus [ZAR] Feeder: 31.4% (Mar 2009 - Feb 2010); Global Managed [ZAR] Feeder: 23.1% (Jul 2010 - Jun 2011); Global Emerging Markets Flexible [ZAR]: 96.0% (Mar 2009 - Feb 2010); Global Opportunities Equity [ZAR] Feeder: 56.9% (Apr 1999 - Mar 2000)

**Lowest annual return**

Global Strategic USD Income: -1.0% (Mar 2015 - Feb 2016); Global Capital Plus [ZAR] Feeder: -7.0% (Mar 2015 - Feb 2016); Global Managed [ZAR] Feeder: -14.9% (Mar 2015 - Feb 2016); Global Emerging Markets Flexible [ZAR]: -51.9% (Mar 2008 - Feb 2009); Global Opportunities Equity [ZAR] Feeder: -41.3% (Mar 2008 - Feb 2009)

Figures are quoted from Morningstar as at 31 May 2019 for a lump sum investment and are calculated on a NAV-NAV basis with income distributions reinvested.



## Disclaimer

All information and opinions provided are of a general nature and are not intended to address the circumstances of any particular individual or entity. As a result thereof, there may be limitations as to the appropriateness of any information given. It is therefore recommended that the reader first obtain the appropriate legal, tax, investment or other professional advice and formulate an appropriate investment strategy that would suit the risk profile of the reader prior to acting upon information. Neither Coronation Fund Managers Limited, Coronation Management Company (RF) (Pty) Ltd nor any other subsidiary of Coronation Fund Managers Limited (collectively "Coronation") is acting, purporting to act and nor is it authorised to act in any way as an adviser. Coronation endeavours to provide accurate and timely information but we make no representation or warranty, express or implied, with respect to the correctness, accuracy or completeness of the information and opinions. Coronation does not undertake to update, modify or amend the information on a frequent basis or to advise any person if such information subsequently becomes inaccurate. Any representation or opinion is provided for information purposes only. Unit trusts should be considered a medium- to long-term investment. The value of units may go down as well as up, and is therefore not guaranteed. Past performance is not necessarily an indication of future performance. Unit trusts are allowed to engage in scrip lending and borrowing. Performance is calculated by Coronation for a lump sum investment with income distributions reinvested. All underlying price and distribution data is sourced from Morningstar. Performance figures are quoted after the deduction of all costs (including manager fees and trading costs) incurred within the fund. Note that individual investor performance may differ as a result of the actual investment date, the date of reinvestment of distributions and dividend withholding tax, where applicable. Annualised performance figures represent the geometric average return earned by the fund over the given time period. Where foreign securities are included in a fund it may be exposed to macroeconomic, settlement, political, tax, reporting or illiquidity risk factors that may be different to similar investments in the South African markets. Fluctuations or movements in exchange rates may cause the value of underlying investments to go up or down. The Coronation Money Market fund is not a bank deposit account. The fund has a constant price, and the total return is made up of interest received and any gain or loss made on any particular instrument, in most cases the return will merely have the effect of increasing or decreasing the daily yield, but in the case of abnormal losses it can have the effect of reducing the capital value of the portfolio. Excessive withdrawals could place the fund under liquidity pressures, in such circumstances a process of ring-fencing of redemption instructions and managed pay-outs over time may be followed. A fund of funds invests in collective investment schemes that levy their own fees and charges, which could result in a higher fee structure for this fund. A feeder fund invests in a single fund of a collective investment scheme, which levies its own charges and could result in a higher fee structure for the feeder fund. Coronation Management Company (RF) (Pty) Ltd is a Collective Investment Schemes Manager approved by the Financial Sector Conduct Authority in terms of the Collective Investment Schemes Control Act. Unit trusts are traded at ruling prices set on every day trading. Forward pricing is used. For Domestic Unit Trust Funds and Tax Free Investments, including rand-denominated International Unit Trust Funds, fund valuations take place at approximately 15h00 each business day, except at month end when the valuation is performed at approximately 17h00 (JSE market close). For these Funds, instructions must reach the Management Company before 14h00 (12h00 for the Money Market Fund) to ensure same day value. For International Unit Trust Funds that are denominated in a foreign currency, fund valuations take place at approximately 17h00 each business day (Irish Time) and instructions must reach the Management Company before 12h00 (SA Time) to ensure the value of the next business day. For Retirement Products, fund valuations take place at approximately 15h00 each business day, except at month end when valuation is performed at approximately 17h00 (JSE market close). For these Products, instructions must reach the Management Company before 14h00 to ensure the value of the next business day. Additional information such as fund prices, brochures, application forms and a schedule of fund fees and charges is available on our website, [www.coronation.com](http://www.coronation.com). Coronation Fund Managers Limited is a Full member of the Association for Savings & Investment SA (ASISA). Coronation Asset Management (Pty) Ltd (FSP 548), Coronation Investment Management International (Pty) Ltd (FSP 45646) and Coronation Alternative Investment Managers (Pty) Ltd (FSP 49893) are authorised financial services providers.



For **enquiries** you can call us on **0800 22 11 77**  
or email us at **[clientservice@coronation.com](mailto:clientservice@coronation.com)**.

For **new applications or transactions** you can email your forms directly to  
**[transact@coronation.com](mailto:transact@coronation.com)** or fax us on **+27 21 680 2100**.

For **more information or to invest online**, visit us on **[www.coronation.com](http://www.coronation.com)**.